

# PERAC AUDIT REPORT



Lynn Contributory Retirement System

JAN. 1, 2004 - DEC. 31, 2005



## TABLE OF CONTENTS

Letter from the Executive Director .....	1
Explanation of Findings and Recommendations.....	2
Statement of Ledger Assets and Liabilities.....	4
Statement of Changes in Fund Balances .....	5
Statement of Receipts.....	6
Statement of Disbursements.....	7
Investment Income .....	8
Schedule of Allocation of Investments Owned.....	9
Supplementary Investment Regulations .....	10
<u>Notes to Financial Statements:</u>	
Note 1 - Summary of Plan Provisions .....	11
Note 2 - Significant Accounting Policies .....	18
Note 3 - Supplementary Membership Regulations.....	19
Note 4 - Administration of the System .....	20
Note 5 - Actuarial Valuation and Assumptions.....	21
Note 6 - Membership Exhibit.....	22

# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*  
KENNETH J. DONNELLY | JAMES M. MACHADO | DONALD R. MARQUIS | THOMAS TRIMARCO

JOSEPH E. CONNARTON, *Executive Director*

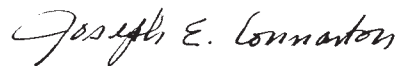
July 20, 2007

The Public Employee Retirement Administration Commission has completed an examination of the Lynn Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2004 to December 31, 2005. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Tivnan and Carol Niemira who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



# EXPLANATION OF FINDINGS AND RECOMMENDATIONS

## **I. Membership and the Additional 2% Contribution**

PERAC auditors sampled members' deduction rates to determine that correct percentages are being withheld and that the additional 2% deduction is withheld from those members who make over \$30,000 and were hired after January 1, 1979. It was noted that several members were assigned to multiple department pay codes for the same payroll period. Their compensation was not accumulated for the purpose of determining whether the total pay for the period qualified for the additional 2% contribution for earnings over \$30,000. For that pay period when more than one pay check is issued, the Board is receiving less than the required 2% additional retirement deduction. The payroll department annualizes each paid earnings payment based on \$30,000 annually rather than combining regular earnings from all source departments or units. This results in multiple exemptions from the additional 2% deduction on earnings over \$30,000 when more than one pay check is generated per pay period.

**Recommendation:** The Board must comply with G.L. c. 32, § 22(1)(b), and PERAC Memo #43/1999, which directs that the additional 2% deductions be withheld on total regular income over \$30,000 on a per pay-period basis. The payroll application should be able to identify all persons who receive pay from multiple departments or units during the same payroll period. It is important that the payroll system properly quantify regular compensation for all persons with multiple job codes within the same payroll period. The Administrator should quantify the amount of contributions that have not been collected based on this issue. The Board should then consider the appropriate remedy to collect the additional funds due the system.

### **Board Response:**

The Lynn Retirement Board agrees that members should not receive multiple exemptions from the additional 2% deduction if they receive more than one paycheck per pay period. The Board attempted to resolve this issue with the city's payroll administration in the Treasurer's Office. The old automated payroll company could not handle overriding the exemption amount without damaging their system. The City of Lynn has just procured a new payroll company that has assured us that their system can handle this situation.

## **2. Ongoing Issue: Collection of Contributions Owed by Members**

The prior audit cited a finding that many members who were hired after January 1, 1979 were not contributing the additional 2% deduction on regular compensation over \$30,000. The Board initiated an extensive evaluation of system membership and identified 123 members who had not contributed the additional 2%. It notified those members by letter, stating the error, conveying regrets and outlining suggested methods to recover the funds owed. The Board insisted upon a repayment plan and arranged with the municipal credit union to ease the financial burden on members. The System has collected 50% of the funds owed after approximately two years.

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

The Board is advised that precedent involving the decision in *Vatalaro vs. State Retirement Board* (CRAB CR-9962) describes a formula that fixes the pension portion of a member's benefit based on the statutory formula that considers age, service and average salary. The annuity portion is based on the actual contributions received from the member. The result is a modified retirement benefit that allows the system to recover the total amount of the contribution that the member has failed to repay.

**Recommendation:** We commend the Lynn Retirement System for its efforts to recover missed deductions. The Board position that benefits upon retirement will be reduced for all members who do not respond to the incentives established to collect the funds owed the system is justified by the formula upheld by the Vatalaro decision.

**Board Response:**

The Lynn Retirement Board commends the audit team and PERAC for their research in finding the Vatalaro decision. We will include this decision with our next written reminder to the members who still owe previous additional 2% deductions. It will reinforce our assertion that benefits will be reduced for all members who fail to pay and, hopefully, will motivate them to settle their accounts.

**FINAL DETERMINATION:**

***PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.***

## STATEMENT OF LEDGER ASSETS AND LIABILITIES

		AS OF DECEMBER 31,	
		2005	2004
<b>Net Assets Available For Benefits:</b>			
Cash		\$794,398	\$107,339
Short Term Investments		2,847,065	5,565,524
Fixed Income Securities		30,295,297	28,295,358
Equities		96,689,793	79,588,837
Pooled Domestic Equity Funds		0	7,268,083
Pooled International Equity Funds		17,506,313	15,788,449
Pooled Domestic Fixed Income Funds		21,948,850	23,029,400
Pooled Alternative Investment Funds		2,004,151	1,444,032
Pooled Real Estate Funds		9,271,141	7,756,421
Interest Due and Accrued		374,462	356,189
Accounts Receivable		9,784,270	7,736,087
Accounts Payable		(893,601)	(7,042)
<b>Total</b>		<u>\$190,622,140</u>	<u>\$176,928,676</u>
<b>Fund Balances:</b>			
Annuity Savings Fund		\$57,817,485	\$54,276,318
Annuity Reserve Fund		27,209,100	27,455,880
Pension Fund		457,883	2,688,615
Military Service Fund		7,260	7,217
Expense Fund		0	0
Pension Reserve Fund		<u>105,130,412</u>	<u>92,500,646</u>
<b>Total</b>		<u>\$190,622,140</u>	<u>\$176,928,676</u>

## STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance ( 2004)	\$57,448,752	\$21,791,653	\$7,793,277	\$7,174	\$0	\$75,253,107	\$162,293,963
Receipts	6,126,910	828,732	17,566,014	43	1,228,444	17,215,278	42,965,421
Inter Fund Transfers	(8,129,829)	8,113,295	(15,728)	0	0	32,261	0
Disbursements	(1,169,516)	(3,277,801)	(22,654,949)	0	(1,228,444)	0	(28,330,709)
Ending Balance (2004)	54,276,318	27,455,880	2,688,615	7,217	0	92,500,646	176,928,676
Receipts	6,328,319	811,615	20,277,722	43	1,348,653	13,341,250	42,107,601
Inter Fund Transfers	(2,109,953)	2,134,830	686,607	0	0	(711,484)	0
Disbursements	(677,199)	(3,193,224)	(23,195,060)	0	(1,348,653)	0	(28,414,136)
Ending Balance (2005)	<u>\$57,817,485</u>	<u>\$27,209,100</u>	<u>\$457,883</u>	<u>\$7,260</u>	<u>\$0</u>	<u>\$105,130,412</u>	<u>\$190,622,140</u>

# STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004
<b>Annuity Savings Fund:</b>		
Members Deductions	\$5,630,454	\$5,196,735
Transfers from Other Systems	231,378	459,812
Member Make Up Payments and Re-deposits	150,289	80,513
Member Payments from Rollovers	0	88,443
Investment Income Credited to Member Accounts	<u>316,198</u>	<u>301,408</u>
Sub Total	<u>6,328,319</u>	<u>6,126,910</u>
<b>Annuity Reserve Fund:</b>		
Investment Income Credited to the Annuity Reserve Fund	<u>811,615</u>	<u>828,732</u>
<b>Pension Fund:</b>		
3 (8) (c) Reimbursements from Other Systems	146,441	152,261
Received from Commonwealth for COLA and Survivor Benefits	2,629,476	1,059,046
Pension Fund Appropriation	<u>17,501,805</u>	<u>16,354,707</u>
Sub Total	<u>20,277,722</u>	<u>17,566,014</u>
<b>Military Service Fund:</b>		
Contribution Received from Municipality on Account of Military Service	0	0
Investment Income Credited to the Military Service Fund	<u>43</u>	<u>43</u>
Sub Total	<u>43</u>	<u>43</u>
<b>Expense Fund:</b>		
Expense Fund Appropriation	0	0
Investment Income Credited to the Expense Fund	<u>1,348,653</u>	<u>1,228,444</u>
Sub Total	<u>1,348,653</u>	<u>1,228,444</u>
<b>Pension Reserve Fund:</b>		
Federal Grant Reimbursement	288,675	186,948
Pension Reserve Appropriation	0	0
Interest Not Refunded	11,196	6,718
Miscellaneous Income	3,902	0
Excess Investment Income	<u>13,037,476</u>	<u>17,021,612</u>
Sub Total	<u>13,341,250</u>	<u>17,215,278</u>
<b>Total Receipts</b>	<u>\$42,107,601</u>	<u>\$42,965,421</u>



# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004
<b>Annuity Savings Fund:</b>		
Refunds to Members	\$375,595	\$695,863
Transfers to Other Systems	<u>301,605</u>	<u>473,652</u>
Sub Total	<u>677,199</u>	<u>1,169,516</u>
<b>Annuity Reserve Fund:</b>		
Annuities Paid	3,116,922	3,082,530
Option B Refunds	<u>76,302</u>	<u>195,271</u>
Sub Total	<u>3,193,224</u>	<u>3,277,801</u>
<b>Pension Fund:</b>		
Pensions Paid:		
Regular Pension Payments	15,599,005	15,575,794
Survivorship Payments	1,495,522	1,478,614
Ordinary Disability Payments	258,969	274,626
Accidental Disability Payments	3,433,399	3,282,587
Accidental Death Payments	1,427,956	1,394,063
Section 101 Benefits	345,125	360,165
3 (8) (c) Reimbursements to Other Systems	443,441	111,399
State Reimbursable COLA's Paid	<u>191,643</u>	<u>177,701</u>
Sub Total	<u>23,195,060</u>	<u>22,654,949</u>
<b>Military Service Fund:</b>		
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>		
Board Member Stipend	18,000	17,000
Salaries	192,289	162,554
Legal Expenses	48,874	82,026
Medical Expenses	0	0
Travel Expenses	10,898	5,888
Administrative Expenses	35,793	28,742
Furniture and Equipment	1,079	338
Management Fees	915,331	795,679
Custodial Fees	48,683	63,298
Consultant Fees	48,000	48,000
Service Contracts	15,161	10,232
Fiduciary Insurance	<u>14,546</u>	<u>14,686</u>
Sub Total	<u>1,348,653</u>	<u>1,228,444</u>
<b>Total Disbursements</b>	<u><b>\$28,414,136</b></u>	<u><b>\$28,330,709</b></u>

# INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004
<b>Investment Income Received From:</b>		
Cash	\$0	\$0
Short Term Investments	121,672	52,742
Fixed Income	1,933,324	2,134,306
Equities	1,377,173	1,088,126
Pooled or Mutual Funds	1,400,207	1,204,513
Commission Recapture	15,706	53,407
<b>Total Investment Income</b>	<u>4,848,082</u>	<u>4,533,094</u>
<b>Plus:</b>		
Realized Gains	6,148,396	6,350,020
Unrealized Gains	15,408,073	14,526,146
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>374,462</u>	<u>356,189</u>
Sub Total	<u>21,930,931</u>	<u>21,232,356</u>
<b>Less:</b>		
Paid Accrued Interest on Fixed Income Securities	(378,706)	(395,384)
Realized Loss	(6,136,114)	(4,705,036)
Unrealized Loss	(4,394,018)	(935,135)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(356,189)</u>	<u>(349,656)</u>
Sub Total	<u>(11,265,028)</u>	<u>(6,385,211)</u>
<b>Net Investment Income</b>	<u>15,513,985</u>	<u>19,380,239</u>
<b>Income Required:</b>		
Annuity Savings Fund	316,198	301,408
Annuity Reserve Fund	811,615	828,732
Military Service Fund	43	43
Expense Fund	<u>1,348,653</u>	<u>1,228,444</u>
<b>Total Income Required</b>	<u>2,476,508</u>	<u>2,358,627</u>
Net Investment Income	<u>15,513,985</u>	<u>19,380,239</u>
Less: Total Income Required	<u>2,476,508</u>	<u>2,358,627</u>
<b>Excess Income To The Pension Reserve Fund</b>	<u>\$13,037,476</u>	<u>\$17,021,612</u>

# SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2005			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$794,398	0.4%	100%
Short Term	2,847,065	1.6%	100%
Fixed Income	30,295,297	16.7%	100%
Equities	96,689,793	53.3%	100%
Pooled Domestic Equity Funds	0	0.0%	100%
Pooled International Equity Funds	17,506,313	9.7%	100%
Pooled Domestic Fixed Income Funds	21,948,850	12.1%	100%
Pooled Alternative Investment Funds	2,004,151	1.1%	5%
Pooled Real Estate Funds	9,271,141	5.1%	10%
<b>Grand Total</b>	<b><u>\$181,357,009</u></b>	<b><u>100.0%</u></b>	*at time of purchase

For the year ending December 31, 2005, the rate of return for the investments of the Lynn Retirement System was 9.35%. For the five-year period ending December 31, 2005, the rate of return for the investments of the Lynn Retirement System averaged 5.11%. For the twenty-one year period ending December 31, 2005, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Lynn Retirement System was 9.38%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Lynn Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

May 15, 2000

We have recently received your Board's response to PERAC Memo #44/1999 regarding Supplemental Investment Regulations. In accordance with your decision, self-imposed restrictions on your Board's percentage of holdings in specific asset classes have been rescinded. Your Board must, however, make asset allocation decisions subject to your fiduciary duty.

Please note that the restrictions pertaining to real estate and alternative investments contained in 840 CMR 19.01 remain in effect.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Lynn Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

### ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

### PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

#### **Group 1:**

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

### RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

### RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

### SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

## NOTES TO FINANCIAL STATEMENTS (Continued)

### AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, §1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

### DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

#### ORDINARY DISABILITY

**Eligibility:** Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

**Retirement Allowance:** Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

#### ACCIDENTAL DISABILITY

**Eligibility:** Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$611.28 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### ACCIDENTAL DEATH

**Eligibility:** Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board.

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

### DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

### METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

**Option A:** Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

**Option B:** A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

**Option C:** A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Lynn Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

August 24, 1994

The Lynn Retirement Board will not accept service credit liability of less than 13 consecutive weeks (minimum 20 hours per week) for former Lynn governmental employees who were ineligible at the time of their employment in the Lynn Retirement System.

This regulation would not apply to an employee who has established membership in the Lynn Retirement System.

May 24, 1991

Liability: The Lynn Retirement Board will not accept service credit liability for employees working in another system who had prior service in the Lynn CETA program or as a reserve police officer or call firefighter. The Board will also not accept liability for employees who worked less than 13 consecutive weeks (minimum of 20 hours per week). (The employee may purchase this time if he/she becomes a member of the Lynn Retirement System only.)

April 26, 1991

Effective immediately, the Lynn Retirement Board adopts the policy not to accept creditable service for CETA time, unless employee requesting same is coming to work for the City of Lynn.

June 20, 1990

1. Effective immediately the Lynn Retirement Board will not accept extra retirement deductions on the weekly payroll for the purpose of buying back creditable service. In order to buy back service credit, the employee must make payments either in a lump sum or periodically, directly to the Lynn Retirement Board office.

2. Effective immediately all new employees hired by the City of Lynn, Lynn Housing Authority and Lynn Water and Sewer Commission shall be placed on retirement deductions and become members of the retirement system at the time of hire with no probationary period.

June 30, 1987

All new employees hired by the City of Lynn shall be placed on retirement deductions (shall become members of the retirement system) at the time of hire with no probationary period.

June 6, 2003

The Lynn Retirement System has adopted travel regulations promulgated by PERAC. (Regulations available upon written request.)

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the City Comptroller who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: John Pace

Appointed Member: Joseph Driscoll                      Term Expires: until successor  
is named

Elected Member: Richard Biagiotti                      Term Expires: 6/30/2007

Elected Member: Gordon "Buzzy" Barton                      Term Expires: 6/30/2006

Appointed Member: Michael Marks, Chairperson                      Term Expires: 1/1/2009

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	
Ex-officio Member:	)	\$50,000,000 fiduciary and
	)	\$1,000,000 fidelity policy
	)	through MACRS
	)	(St. Paul Travelers and Surety Co.
Elected Member:	)	of America; National Union
Appointed Member:	)	Fire Insurance Co. of Pittsburgh,
Staff Employee:	)	PA; Arch Insurance Co.)

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by PERAC as of January 1, 2006.

The actuarial liability for active members was	\$174,615,540
The actuarial liability for vested terminated members was	1,752,089
The actuarial liability for non-vested terminated members was	677,655
The actuarial liability for retired members was	<u>222,967,254</u>
The total actuarial liability was	400,012,538
System assets as of that date were (actuarial value)	<u>186,958,827</u>
The unfunded actuarial liability was	<u>\$213,053,711</u>
 The ratio of system's assets to total actuarial liability was	 46.7%
As of that date the total covered employee payroll was	\$65,444,873

The normal cost for employees on that date was 8.30% of payroll

The normal cost for the employer was 5.51% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return:	8.25% per annum
Rate of Salary Increase:	Varies with service and group, with ultimate rates of 4.75% to 5.25% per annum

### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2006

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2006	\$186,958,827	\$400,012,538	\$213,053,711	46.7%	\$65,444,873	325.5%
1/1/2004	\$178,523,359	\$351,319,226	\$172,795,867	50.8%	\$63,050,947	274.1%
1/1/2002	\$166,986,318	\$317,252,740	\$150,266,422	52.6%	\$66,007,910	227.6%
1/1/2000	\$168,279,923	\$278,031,058	\$109,751,135	60.5%	\$58,953,757	186.2%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Retirement in Past Years</b>										
Superannuation	37	30	30	3	26	30	40	90	27	25
Ordinary Disability	2	0	0	0	0	1	1	1	0	0
Accidental Disability	3	1	5	0	6	2	4	4	6	11
<b>Total Retirements</b>	42	31	35	3	32	33	45	95	33	36
Total Retirees, Beneficiaries and Survivors	1,242	1,234	1,285	1,227	1,236	1,276	1,252	1,307	1,295	1,277
Total Active Members	1,550	1,663	1,658	1,809	1,758	1,851	1,802	1,593	1,459	1,491
<b>Pension Payments</b>										
Superannuation	\$7,833,539	\$8,187,565	\$8,664,428	\$8,978,534	\$10,115,367	\$10,036,392	\$10,811,073	\$12,626,488	\$15,575,794	\$15,599,005
Survivor/Beneficiary Payments	679,999	687,556	767,261	847,588	983,413	1,475,552	1,248,837	1,390,460	1,478,614	1,495,522
Ordinary Disability	272,536	251,272	270,212	235,668	277,124	257,512	270,161	308,176	274,626	258,969
Accidental Disability	2,588,916	2,621,077	2,698,377	2,593,707	3,047,526	3,118,492	3,148,980	3,154,844	3,282,587	3,433,399
Other	<u>3,533,417</u>	<u>3,690,706</u>	<u>3,162,609</u>	<u>3,216,004</u>	<u>2,287,710</u>	<u>2,174,634</u>	<u>2,213,401</u>	<u>1,961,532</u>	<u>1,754,228</u>	<u>1,773,081</u>
<b>Total Payments for Year</b>	<u>\$14,908,407</u>	<u>\$15,438,176</u>	<u>\$15,562,887</u>	<u>\$15,871,501</u>	<u>\$16,711,140</u>	<u>\$17,062,581</u>	<u>\$17,692,452</u>	<u>\$19,441,500</u>	<u>\$22,365,849</u>	<u>\$22,559,976</u>



PERAC

Five Middlesex Avenue | Third Floor  
Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: [www.mass.gov/perac](http://www.mass.gov/perac)